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Rev. Proc. 87-57, 1987-2 CB 687, IRC Sec(s). 168

Headnote:

Rev. Proc. 87-57, 1987-2 CB 687 (Also Part I, Section  168.)

[Caution: This rev proc has been amplified and clarified by [Rev. Proc. 89-15,1989-1 CB 816](#) . Sec. 8.02 has been modified by [Rev. Proc. 2013-13,2013-6 IRB 478](#) . This rev proc has been modified to provide optional depreciation table for residential rental property depreciated under alternative depreciation system with 30-year recovery period by [Rev. Proc. 2019-8,2019-3 IRB](#) .]

Reference(s): [Code Sec. 168](#);



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1. PURPOSE




.01. This revenue procedure provides guidance to taxpayers and Service personnel in computing depreciation allowances for tangible property under  section 168 of the Internal **<Page 688>**











Revenue Code, as amended by section 201(a) of the Tax Reform Act of 1986 (the Act), 1986-3 (Vol. 1) C.B. 38. This revenue procedure describes the applicable depreciation methods, applicable recovery periods, and applicable conventions that must be used in computing depreciation allowances under  section 168.


.02. Sections 2- 7 of this revenue procedure prescribe the manner of computing depreciation allowances. Section 8 of this revenue procedure contains various tables that may be used by certain taxpayers in lieu of computing allowances in the manner described in sections 2- 7.




2. GENERAL RULES OF APPLICATION








.01. *Property to which  section 168 applies.* This revenue procedure applies to all property to which  section 168 of the Code applies. In general,  section 168 applies to depreciable tangible property placed in service after December 31, 1986, except that the section does not apply to property described in  section 168(f) or to any transitional rule property (that is, property excluded from the application of section 201 of the Act pursuant to section 203(b), 204, or 251(d)(2) of the Act). A taxpayer may make an irrevocable election to have  section 168 apply to certain depreciable tangible property that is not otherwise excluded by  section 168(f) and that was placed in service after July 31, 1986, and before January 1, 1987. See section 203(a)(1)(B) of the Act. An election to apply  section 168 to property that was placed in service after July 31, 1986, and before January 1, 1987, must be made in the time and manner prescribed in  section 5h.5 of the Temporary Regulations-Elections Under Various Public Laws. See section 2.10 of this revenue procedure.




.02. *Property to which  section 168 does not apply.* Transitional rule property and property described in  section 168(f) of the Code are subject to depreciation not under  section 168 but under the following applicable depreciation rules:

- (1) Transitional rule property is subject to depreciation under  section 167 or  section 168 of the 1954 Code, as in effect before the amendments made by section 201 of the Act, but as amended by section 1809 of the Act.
- (2) Property that is described in  section 168(f)(1) of the Code is subject to depreciation under  section 167(a). The property described in  section 168(f)(1) is any property such that the taxpayer makes an irrevocable election to exclude the property from  section 168, and for the first taxable year for which a depreciation deduction would be allowable with respect to such property in the hands of the taxpayer, the property is properly depreciated under the unit-of-production method or any method of depreciation not expressed in a term of years (other than the retirement-replacement- betterment method or similar method). The election must be made as set out in section 2.10 of this revenue procedure.
- (3) Property that is described in  section 168(f)(2) of the Code (that is, public utility property for which the taxpayer does not use a normalization method of accounting) is subject to depreciation under the rule prescribed in  section 168(i)(9)(C).
- (4) Property that is described in  section 168(f)(3) or  (4) of the Code (that is, films









and video tapes, and sound recordings, respectively) is subject to depreciation under  section 167(a).

(5) Property that is described in  section 168(f)(5) of the Code (that is, certain churned property) is subject to depreciation under  section 167 of the Code or  section 168, as in effect before the amendments made by section 201 of the Act, but as amended by section 1809 of the Act.


.03. *Property subject to the general depreciation system of  section 168(a).* In general, unless the alternative depreciation system in  section 168(g) of the Code applies, depreciation allowances are computed under the general depreciation system prescribed in  section 168(a) by use of the applicable depreciation method, applicable recovery period, and the applicable convention determined under  section 168(b),  (c) and  (d) of the Code, respectively. See section 6 of this revenue procedure for rules determining the applicable depreciation method. See section 4 of this revenue procedure for rules determining the applicable recovery period. See section 5 of this revenue procedure for rules determining the applicable convention. However, for certain property  section 168(g) provides the alternative depreciation system.

.04. *Property subject to the alternative depreciation system of  section 168(g).* Under the alternative depreciation system prescribed in  section 168(g) of the Code, depreciation allowances are computed by use of the applicable depreciation method, the applicable recovery period, and the applicable convention determined under  section 168(g)(2).



1 *Required use of alternative depreciation system.* The alternative depreciation system must be used for:





- (a) any tangible property that during the taxable year is used predominantly outside the United States, as determined under  section 168(g)(4);
- (b) any tax-exempt use property, as defined in  section 168(h);
- (c) any tax-exempt bond financed property, as defined in  section 168(g)(5);
- (d) any imported property covered by an Executive order issued under  section 168(g)(6);
- (e) any property covered by an election made under  section 168(g)(7); and
- (f) any property used predominantly in a farming business and placed in service during any taxable year in which the taxpayer elects under  section 263A(d)(3) not to have  section 263A apply to certain costs. See  section 263A(e)(2)(A).









2 *Elective use of alternative depreciation system.* A taxpayer may make an irrevocable

election pursuant to  section 168(g)(7) with respect to any recovery class of property for any taxable year to use the alternative depreciation system in lieu of the general depreciation system. The alternative depreciation system shall apply to all property in such class placed in service during such taxable year. See section 3.02 of this revenue procedure for determination of recovery classes. In the case of nonresidential real property or residential rental property, an election to use the alternative depreciation system in lieu of the general depreciation system may also be made separately with respect to each property. Elections to use the alternative depreciation system must be made as set out in section 2.10 of this revenue procedure.


.05. *Recovery period.* The recovery period for depreciation of an asset **<Page 689>** begins in the taxable year when the asset is placed in service and ends either when cumulative depreciation deductions (allowed or allowable) equal the cost or other basis of the asset or when the asset is disposed of or retired from service in a business activity. In general, the term "placed in service" refers to the time that property is first placed by the taxpayer in a condition or state of readiness and availability for a specifically assigned function.

.06. *Salvage value.* For purposes of computing the depreciation allowance under  section 168 of the Code, salvage value is treated as zero.  Section 168(b)(4).

.07. *Earnings and profits and alternative minimum tax.* The adjustment to earnings and profits under  section 312(k)(3) of the Code for depreciation of property with respect to which  section 168 applies shall be made using the alternative depreciation system. Under  section 56(a)(1)(A)(i), for purposes of determining alternative minimum taxable income, depreciation allowances are computed using the alternative depreciation system, as modified for such purpose by  section 56(a)(1)(A)(ii). See section 7 of this revenue procedure.




.08. *Other cost recovery rules.* Depreciation allowances computed under  section 168 of the Code and this revenue procedure may be limited under other provisions of the Code, such as  section 280F, which limits depreciation deductions with respect to listed property. In addition, property that would otherwise be depreciable under  section 168 may be eligible for other cost recovery provisions in lieu of  section 168, such as expensing under  section 179, amortization under  section 169, and depletion under  section 611. No depreciation deduction is allowed under  section 168 for property that is not used in a trade or business or held for the production of income.



.09. *Additions or improvements.* Additions or improvements to any property are treated as separate property items for purposes of computing depreciation. The recovery period for any addition or improvement to property begins the later of (1) the taxable year in which the addition or improvement



is placed in service, or (2) the taxable year in which the property with respect to which such addition or improvement was made is placed in service. The applicable recovery period, applicable convention, and applicable depreciation method for an addition or improvement to property shall be the same as those that would be applicable to the underlying property if the underlying property were placed in service at the same time as the addition or improvement and were subject to  section 168 of the Code.

.10. *Time and manner for making elections.* Under section 5h.5(a)(2) of the temporary regulations, after April 14, 1987, an election described in this revenue procedure shall be made by the due date (taking extensions into account) of the tax return for the first taxable year for which the election is to be made. The tax return must be accompanied by a statement identifying the election by reference to Code or Act section and identifying the property items for which the election is being made.


3. CLASSES OF PROPERTY




.01. *In general.* The general depreciation system and the alternative depreciation system classify property for purposes of determining the applicable depreciation method, applicable recovery period, and applicable convention. Under different rules for each system, property is classified based on the class life of the property or the assigned class life of the property. The class life of property is the class life (if any) that would be applicable with respect to the property as of January 1, 1986, under  section 167(m) of the Code (determined without regard to paragraph (4) thereof and determined as if the taxpayer had made an election under  section 167(m)). The class life or assigned class life of property may be modified by the Secretary pursuant to authority granted under  section 168(i)(1). Rev. Proc. 87-56, page 674, this Bulletin, provides the rules and tables relating to class lives of property.


.02. *General depreciation system.* Property subject to the general depreciation system is classified based upon the property's class life (if any), unless a different recovery class is assigned under  section 168(e)(2) or  (3) of the Code:






1 Property that is not assigned a recovery class under  section 168(e)(2) or  (3) of the Code is assigned a recovery class under the following table:


Class Life (in years)	Recovery Class
4 or less	3-year property
more than 4, but less than 10	5-year property
10 or more, but less than 16	7-year property
16 or more, but less than 20	10-year property
20 or more, but less than 25	15-year property
25 or more	20-year property



2 Property is assigned under  section 168(e)(2) of the Code to the recovery classes for residential rental property or nonresidential real property based on the following rules:


- (a) *Residential rental property recovery class*: Only property that is described in  section 167(j)(2)(B). Thus, a building or structure shall be considered to be residential rental property for any taxable year only if 80 percent or more of the gross rental income from the building or structure is rental income from dwelling units (within the meaning of  section 167(k)(3)(C)). For purposes of the preceding sentence, if any portion of the building or structure is occupied by the taxpayer as a residence, the gross rental income from the building or structure shall include the rental value of the portion so occupied.
- (b) *Nonresidential real property recovery class*: Only  section 1250 property that is not residential rental property and that does not have a class life of less than 27.5 years.

3 The following property (not including property defined as residential rental property or nonresidential real property) is assigned under  section 168(e)(3) of the Code to a recovery class notwithstanding its class life, if any:


- (a) *3-year property recovery class*: Any race horse that is more than 2 years old at the time it is placed in service, and any horse that is not a race horse and that is more than 12 years old at the time it is placed in service. The 3-year property recovery class does not include any automobile or light general purpose truck.
- (b) *5-year property recovery class*: Any automobile or light general purpose truck, any semi-conductor manufacturing equipment, any computer-based telephone central office switching equipment, any qualified technological equipment (as defined in  section 168(i)(2)), any property **<Page 690>** used in connection with research and experimentation, and certain energy property described in  section 168(e)(3)(B)(vi).
- (c) *7-year property recovery class*: Any railroad track, any single-purpose agricultural or horticultural structure (within the meaning of  section 48(p)), and any property that does not have a class life and is not otherwise classified in  section 168(e)(2) or  (3).
- (d) *15-year property recovery class*: Any municipal wastewater treatment plant and any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications.
- (e) *20-year property recovery class*: Any municipal sewer.

.03. *Alternative depreciation system*. For purposes of the alternative depreciation system,  section

168(g)(3)(B) of the Code assigns to certain property a class life that is to be taken into account instead of the class life (if any) determined under  section 167(m) as of January 1, 1986. The following property is assigned class lives under  section 168(g)(3)(B) for purposes of the alternative depreciation system:




- (a) Any semi-conductor manufacturing equipment is assigned a class life of 5 years.
- (b) Any computer-based telephone central office switching equipment is assigned a class life of 9.5 years.
- (c) Any railroad track is assigned a class life of 10 years.
- (d) Any single purpose agricultural or horticultural structure (within the meaning of  section 48(p)) is assigned a class life of 15 years.
- (e) Any municipal wastewater treatment plant is assigned a class life of 24 years.
- (f) Any telephone distribution plant and comparable equipment used for 2- way exchange of voice and data communications is assigned a class life of 24 years.
- (g) Any municipal sewer is assigned a class life of 50 years.

4. APPLICABLE RECOVERY PERIODS

.01. *General depreciation system.* Under the general depreciation system, the applicable recovery period for property is determined under  section 168(c) of the Code and is based on the classification of property among eight recovery classes as set forth in the following table:

Class of Property	Applicable Recovery Period
3-year property	3 years
5-year property	5 years
7-year property	7 years
10-year property	10 years
15-year property	15 years
20-year property	20 years
Residential rental property	27.5 years
Non-residential real property	31.5 years

These recovery periods are 12-month periods and are not based on taxable years. The applicable recovery periods are not elective.



.02. *Alternative depreciation system.* Under the alternative depreciation system, the applicable recovery period for property is determined under  section 168(g) of the Code and is based upon the table in  section 168(g)(2)(C) or, if applicable, a recovery period assigned in  section 168(g)(3). The applicable recovery period for property subject to the alternative depreciation system is

set forth in the following table:


In the case of	Applicable Recovery Period
Property not described below	the class life (including class lives assigned in section 168(g)(3)(B)). See
section	3.03 of this revenue procedure.
Personal property that has no class life and that is not described below	12 years
Qualified technological equipment (as defined in section 168(i)(2))	5 years
Any automobile or light general purpose truck	5 years
Nonresidential real and residential rental property (The same definitions apply as under the general depreciation system, see	40 years
section 3.02 of this revenue procedure.)	
Any section 1245 property (as defined in section 1245) that is real property with no class life	40 years

These recovery periods are 12-month periods and are not based on taxable years. The applicable recovery periods are not elective.

5. APPLICABLE CONVENTIONS


.01. *Effect of conventions.*  Section 168(d) of the Code prescribes the applicable conventions to be used in computing depreciation deductions under  section 168 for the taxable year in which


property is placed in service and the taxable year in which property is disposed of or retired from service. The applicable convention determines the portion of the taxable year for which depreciation is allowable. Thus, allowable depreciation in the taxable year in which a convention applies is a fraction of the amount of the depreciation that would be allowable under the applicable depreciation method for a full taxable year (that is, a taxable year in which property is in service for 12 full months). An applicable convention also determines how much of the applicable recovery period remains as of the beginning of the taxable year following the taxable year in which property is placed in service.

.02. *Determination of applicable conventions.* One of three applicable conventions (half-year, mid-month, and mid-quarter) applies to all property subject to depreciation under  section 168. The applicable convention is not elective.

1 *Mid-month convention.* The applicable convention for all nonresidential real property and residential rental property under both the general and alternative depreciation systems is the mid-month convention. The mid-month convention does not apply to any other property.

2 *Half-year convention.* The applicable convention for all property other than residential rental property and nonresidential real property, under both the general and alternative depreciation systems, is the half-year convention, unless the mid-quarter convention applies.

3 *Mid-quarter convention.* The mid-quarter convention is a special rule applicable to situations in which substantial property is placed in service during the last three months of the taxable year. The convention applies, for purposes of both the general and the alternative depreciation systems, to all property (other than residential rental property and nonresidential real property) placed in service during a taxable year if the following is satisfied: The aggregate bases of property subject to depreciation under  section 168

that is placed **<Page 691>** in service during the last 3 months of the taxpayer's taxable year exceed 40 percent of the aggregate bases of property subject to depreciation under 

section 168 that is placed in service during the entire taxable year. For purposes of determining whether the mid-quarter convention applies, the aggregate bases of property subject to the general and the alternative depreciation systems are aggregated, except that aggregate bases of nonresidential real property and residential rental property are not taken into account. See also section 203(d) of the Act for a transitional rule relating to property that is to be taken into account for purposes of determining whether the 40 percent test is satisfied. If applicable to all property (other than residential rental property and nonresidential real property) placed in service during a taxable year, the mid-quarter convention applies to all such property in the year of its disposition or retirement.

.03. *Half-year convention.* Under the half-year convention, property placed in service, disposed of, or retired at any time during the taxable year is treated as being placed in service, disposed of, or retired on the mid-point of such year. Thus, the amount of allowable depreciation in the taxable year in which the half-year convention applies is one-half of the amount that would be allowable under the

applicable depreciation method for a full year. The remaining recovery period as of the beginning of the taxable year following the taxable year in which property is placed in service is equal to the applicable recovery period less one-half of a year.

Example. Assume that on March 1, 1987, a taxpayer filing returns on the basis of the calendar year placed in service office furniture and on August 1, 1987, the taxpayer placed in service additional office furniture. The office furniture is in the seven-year property class. Assume also that the taxpayer placed no other property in service during the taxable year ending December 31, 1987. On its tax return for the taxable year ending December 31, 1987, the taxpayer must use the half-year convention to compute the depreciation deductions for the seven-year property placed in service during the taxable year. Thus, the seven-year property is deemed to be placed in service on July 1, 1987. The taxpayer is entitled to one-half of the amount of depreciation that would be allowable under the applicable depreciation method for a full year. As of January 1, 1988, the remaining recovery period is 6 $\frac{1}{2}$ years.

.04. *Mid-month convention.* Under the mid-month convention, property placed in service, disposed of, or retired during any month is treated as being placed in service, disposed of, or retired on the mid-point of such month. Thus, regardless of when during the month a taxpayer places residential rental property or nonresidential real property in service, the property is deemed to be placed in service on the mid-point of such month. Under the mid-month convention, depreciation is allowable for a fraction of a year with respect to each item of property placed in service, disposed of, or retired during such year. The numerator of the fraction is equal to .5 plus the number of full months in the taxable year in which the property is in service. The denominator of the fraction is 12. Allowable depreciation in a taxable year in which the mid-month convention applies is that fraction of the amount that would be allowable under the applicable depreciation method of a full year. The remaining recovery period as of the beginning of the taxable year following a taxable year in which property is placed in service is equal to the property's applicable recovery period less the fraction of the first year for which depreciation is allowable.


Example. Assume that on March 1, 1987, a taxpayer filing returns on the basis of the calendar year placed in service residential rental property. On its tax return for the taxable year ending December 31, 1987, the taxpayer is entitled to $(9.5)/12$ of the amount of depreciation that would be allowable under the applicable depreciation method for a full year. As of January 1, 1988, the remaining recovery period for the property is 26 years and 8 $\frac{1}{2}$ months (that is, 27 years and six months less the 9 $\frac{1}{2}$ months for which depreciation is allowable in 1987).

.05. *Mid-quarter convention.* Under the mid-quarter convention, property placed in service, disposed of, or retired during any quarter of a taxable year is deemed placed in service, disposed of, or retired on the mid- point of such quarter. Thus, under the mid-quarter convention, depreciation is allowable for a fraction of a year. The numerator of the fraction is equal to .5 plus the number of full quarters in the taxable year in which the property is in service. The denominator of the fraction is 4. Allowable depreciation in a taxable year in which the mid-quarter convention applies is that fraction of the


amount of depreciation that would be allowable under the applicable depreciation method for a full year. The remaining recovery period as of the beginning of the taxable year following a taxable year in which property is placed in service is equal to the property's applicable recovery period less the fraction of the first year for which depreciation is allowable.

Example. Assume that on January 3, 1987, a taxpayer filing returns on the basis of the calendar year placed in service for use in its business an automobile that cost \$10,000 and on November 1, 1987, the taxpayer placed in service for use in its business a dump truck that cost \$100,000. Assume also that the taxpayer placed no other property in service for use in its business during the taxable year ending December 31, 1987. On its tax return for the taxable year ending December 31, 1987, the taxpayer must use the mid-quarter convention to compute the depreciation deductions for both the automobile and the truck. Thus, the automobile is deemed to be placed in service on February 15, 1987 (that is, the mid-point of the first quarter), and the truck is deemed to be placed in service on November 15, 1987 (that is, the mid-point of the fourth quarter). The taxpayer is entitled to 7/8 of the amount of depreciation that would be allowable with respect to the automobile under the applicable depreciation method for a full year and 1/8 of the amount of the depreciation that would be allowable with respect to the dump truck under the applicable depreciation method for a full year. As of January 1, 1988, the remaining recovery period for the automobile is 4 1/8 years, and the remaining recovery period for the truck is 4 7/8 years.<Page 692>

6. APPLICABLE DEPRECIATION METHODS

.01. *General depreciation system.* Under the general depreciation system, applicable depreciation methods are prescribed for each recovery class of property. See sections 3 and 4 of this revenue procedure for rules relating to the classification of property among recovery classes and assignment of the applicable recovery period for each recovery class. For the 3-, 5-, 7- and 10-year property recovery classes, the applicable depreciation method is the 200 percent declining balance method, switching to the straight line method in the taxable year that maximizes the depreciation allowance. For the 15- and 20-year property recovery classes, the applicable depreciation method is the 150 percent declining balance method, switching to the straight line method in the taxable year that maximizes the depreciation allowance. For the residential rental and nonresidential real property recovery classes, the applicable depreciation method is the straight line method. No other depreciation method may be used for property subject to the general depreciation system. The applicable depreciation methods for each recovery class are not elective, except that a taxpayer may make an irrevocable election, pursuant to  section 168(b)(5) of the Code, to use the straight line method in lieu of the otherwise applicable depreciation method for all property within a recovery class that is placed in service in a taxable year. Such an election would require use of the straight line method in combination with the applicable recovery period and convention determined under the general depreciation system. An election to use the straight line method in lieu of the otherwise applicable depreciation method must be made as set out in section 2.10 of this revenue procedure.

.02. *Alternative depreciation system.* Under the alternative depreciation system, except as modified for purposes of the alternative minimum tax (see section 7 of this revenue procedure), the applicable depreciation method for all property is the straight line method.

.03. *Determination of applicable depreciation rate.* Under each of the applicable depreciation methods, the depreciation allowance for a full taxable year (that is, a taxable year of 12 full months) is computed by applying the applicable depreciation rate to the unrecovered basis of the property for each taxable year. For this purpose, the unrecovered basis of the property is the cost or other basis of the property adjusted for depreciation previously allowed or allowable and for all other applicable adjustments under  section 1016 or any other provision of law. Determination of the applicable depreciation rate

under each applicable depreciation method is described in section 6.04, .05, and .06 of this revenue procedure. In no case may an applicable depreciation rate in any year exceed 100 percent.

Computation of applicable depreciation rates must reflect a reasonable and consistent rounding convention that is exact to at least one-hundredth of a percent in the case of property with an applicable recovery period of less than 20 years and to at least one-thousandth of a percent in the case of property with an applicable recovery period of 20 years or greater. Under any rounding convention, a taxpayer may not recover more than 100 percent of the recoverable basis of the property.

.04. *Declining balance method.* Under the declining balance method, an applicable depreciation rate (in percentage terms) is determined by dividing the specified declining balance percentage (150 or 200 percent) by the applicable recovery period. This applicable depreciation rate is constant for each taxable year in which the declining balance method is used and is applied to the unrecovered basis of the property (that is, generally the cost or other basis adjusted for depreciation previously allowed or allowable and for all other applicable adjustments). For example, the 200 percent declining balance method applied to property with a 5-year recovery period results in an applicable depreciation rate of 40 percent (200/5) in each full taxable year. As a further example, the 150 percent declining balance method applied to property with a 7-year recovery period results in a depreciation rate of 21.43 percent (150/7) in each full taxable year. See section 6.03 of this revenue procedure for the rounding convention.






.05. *Straight line method.* Under the straight line method, a new applicable depreciation rate is determined for each taxable year in the applicable recovery period. For any taxable year, the applicable depreciation rate (in percentage terms) is determined by dividing 1 by the length of the applicable recovery period remaining as of the beginning of such taxable year. The rate is applied to the unrecovered basis of the property (that is, generally the cost or other basis adjusted for depreciation previously allowed or allowable and for all other applicable adjustments). If as of the beginning of any taxable year the remaining recovery period is less than 1 year, the applicable depreciation rate under the straight line method for that year is 100 percent. For example, the straight line method applied to property with a 5-year recovery period results in applicable depreciation rates of 20, 25, 33.33, 50, and 100 percent, computed for five full years.




.06. *Declining balance method switching to straight line method.* Under this applicable depreciation method, a taxpayer uses the specified percentage declining balance method but must switch to the straight line method in the taxable year in which use of the straight line method yields a depreciation allowance equal to or greater than the allowance yielded by use of the declining balance method. Thus, under this applicable depreciation method, for each taxable year, a taxpayer must compare the applicable depreciation rates for a full taxable year under the declining balance method and the straight line method, *after taking into account the applicable convention* for purposes of determining how much of the applicable recovery period remains as of the beginning of the next full taxable year.


Example. Assume that a taxpayer filing returns on the basis of the calendar year placed property with a basis of \$100 in service in February 1987, the applicable recovery period is 5 years, the applicable convention is the half-year convention, and the applicable depreciation method is the 200 percent declining balance method, switching to the straight line **<Page 693>** method in the taxable year which maximizes the depreciation allowance. Also assume that the taxable year 1987 is a taxable year of 12 full months and that the property remains in service through the end of 1992. Under the half-year convention, depreciation is allowable for one-half of 1987, and allowable depreciation is one-half of the amount that would be allowable under the applicable depreciation method for a full taxable year. Under the applicable depreciation method, the taxpayer must compare the applicable depreciation rates for a full taxable year under both the 200 percent declining balance method and the straight line method. The 200 percent declining balance method yields an applicable depreciation rate of 40 percent (200 divided by 5) in each year, and the straight line method yields an applicable depreciation rate of 20 percent in the first year. Thus, in 1987 the taxpayer uses the 200 percent declining balance method and the half-year convention resulting in a 1987 depreciation allowance of \$20 ($\$100 \times .40 \times .5$). Also, the half-year convention results in 4.5 years of the recovery period remaining as of the beginning of 1988. In 1988, the applicable depreciation rate under the declining balance method remains 40 percent. The applicable depreciation rate under the straight line method, which takes into account application of the applicable half-year convention in determining the remaining recovery period, is 22.22 percent ($1 \div 4.5$). Thus, the taxpayer's 1988 depreciation allowance is \$32 ($\80, the unrecovered basis in 1988, $\times .40$). In 1989, the applicable depreciation rate under the declining balance method remains 40 percent. The applicable depreciation rate under the straight line method, taking into account 3.5 years remaining in the recovery period, is 28.57 percent ($1 \div 3.5$). Thus, the taxpayer's 1989 depreciation allowance is \$19.20 ($\48, the unrecovered basis in 1989, $\times .40$). In 1990, the applicable depreciation rate under the declining balance method remains 40 percent. The applicable depreciation rate under the straight line method, taking into account 2.5 years remaining in the recovery period, is also 40 percent ($1 \div 2.5$). Since the applicable depreciation rate under the straight line method is equal to or greater than the applicable depreciation rate under the declining balance method, the taxpayer switches to the straight line method in 1990 and uses the straight line method for the remainder of the recovery period. In 1990, the taxpayer's depreciation allowance is \$11.52 ($\28.80, the unrecovered basis in 1990, $\times .40$). In 1991, the applicable depreciation rate under the straight line method is 66.67 percent ($1 \div 1.5$), and the depreciation allowance is also \$11.52. In 1992, the applicable depreciation rate under the straight line

method is 100 percent, since the remaining recovery period as of the beginning of that year is less than 1 year. Thus, the depreciation allowance in 1992 is \$5.76, which is the unrecovered basis in 1992. Note that the rounding convention specified in section 6.03 of this revenue procedure applies to the applicable depreciation rates.

7. ALTERNATIVE MINIMUM TAX


.01.  Section 55(b)(2) of the Code provides that for purposes of the alternative minimum tax imposed by  section 55, the term "alternative minimum taxable income" means the taxable income of the taxpayer for the taxable year with certain adjustments.  Section 56(g)(4)(A) provides that, for purposes of determining the amount of the alternative minimum taxable income for any taxable year an adjustment to taxable income must be made for depreciation.  Section 56(a)(1)(A) provides that depreciation allowances are computed using the alternative depreciation system as modified in  section 56(a)(1)(A)(ii). The applicable depreciation method for purposes of the alternative minimum tax is not elective.

.02. Under  section 56(a)(1)(A)(ii) of the Code, the alternative depreciation system is modified by modifying the applicable depreciation method with respect to certain property. The modified applicable depreciation method applies, for purposes of the alternative minimum tax, to all property other than non-residential real property, residential rental property, and property for which the taxpayer is required to use or has elected to use the alternative depreciation system pursuant to  section 168(g). For such property, the applicable depreciation method is the 150 percent declining balance method, switching to the straight line method at the time that maximizes the deductions. The modified applicable depreciation method is applied in conjunction with the applicable recovery period and applicable convention determined under  section 168(g) and sections 4.02 and 5 of this revenue procedure.

.03. For purposes of the adjustment to alternative minimum taxable income for any taxable year beginning after 1989 with respect to adjusted current earnings for such year, special rules for computing depreciation allowances are provided in  section 56(g)(4) of the Code.

8. OPTIONAL TABLES

.01. [Editor's note: This section has been modified by .]

This section contains optional depreciation tables that may be used by certain taxpayers in computing annual depreciation allowances under  section 168 of the Code. The depreciation tables may be

used with respect to any item of property placed in service in a taxable year. For all items of property placed in service in a taxable year for which the depreciation tables are not used, depreciation allowances must be computed in the manner prescribed in sections 2- 7 of this revenue procedure.

.02. The optional depreciation tables specify schedules of annual depreciation rates to be applied to the *unadjusted basis* of property in each taxable year. If a taxpayer uses a table to compute the annual depreciation allowance for any item of property, the taxpayer must use the table to compute the annual depreciation allowances for the entire recovery period of such property. However, a taxpayer may not continue to use the table if there are any adjustments to the basis of the property for reasons other than (1) depreciation allowed or allowable or (2) an addition or an improvement to such property that is subject to depreciation as a separate item of property. Use of the tables in this revenue procedure to compute depreciation allowances does not require the filing of any notice with the Internal Revenue Service.

Taxpayers use the appropriate table for any property based on the depreciation system, the applicable depreciation method, the applicable recovery period, and the applicable convention. **<Page 694>** The tables lists the percentage depreciation rates to be applied to the unadjusted basis of property in each taxable year.

In Tables 1-5, for the general depreciation system, the listed depreciation rates reflect the 200 percent declining balance method switching to the straight line method for property with applicable recovery periods of 3, 5, 7 or 10 years and the 150 percent declining balance method switching to straight line method for property with applicable recovery periods of 15 and 20 years.

Table 1.	General Depreciation System
	Applicable Depreciation Method: 200 or 150 percent declining balance switching to straight line
	Applicable Recovery Periods: 3, 5, 7, 10, 15, 20 years
	Applicable Convention: Half-year
Table 2.	General Depreciation System
	Applicable Depreciation Method: 200 or 150 percent declining balance switching to straight line
	Applicable Recovery Periods: 3, 5, 7, 10, 15, 20 years
	Applicable Convention: Mid-quarter (property placed in service in first quarter)
Table 3.	General Depreciation System
	Applicable Depreciation Method: 200 or 150 percent declining balance switching to straight line
	Applicable Recovery Periods: 3, 5, 7, 10, 15, 20 years
	Applicable Convention: Mid-quarter (property placed in service in second quarter)
Table 4.	General Depreciation System
	Applicable Depreciation Method: 200 or 150 percent declining balance switching to straight line

Applicable Recovery Periods: 3, 5, 7, 10, 15, 20 years

Applicable Convention: Mid-quarter (property placed in service in third quarter)

Table 5. General Depreciation System

Applicable Depreciation Method: 200 or 150 percent declining balance switching to straight line

Applicable Recovery Periods: 3, 5, 7, 10, 15, 20 years

Applicable Convention: Mid-quarter (property placed in service in fourth quarter)

Table 6. General Depreciation System

Applicable Depreciation Method: Straight line

Applicable Recovery Period: 27.5 years

Applicable Convention: Mid-month

Table 7. General Depreciation System

Applicable Depreciation Method: Straight line

Applicable Recovery Period: 31.5 years

Applicable Convention: Mid-month

Table 8. General and Alternative Depreciation Systems

Applicable Depreciation Method: Straight line

Applicable Recovery Periods: 2.5--50 years

Applicable Convention: Half-year

Table 9. General and Alternative Depreciation Systems

Applicable Depreciation Method: Straight line

Applicable Recovery Periods: 2.5--50 years

Applicable Convention: Mid-quarter (property placed in service first quarter)

Table 10. General and Alternative Depreciation Systems

Applicable Depreciation Method: Straight line

Applicable Recovery Periods: 2.5--50 years

Applicable Convention: Mid-quarter (property placed in service second quarter)

Table 11. General and Alternative Depreciation Systems

Applicable Depreciation Method: Straight line

Applicable Recovery Periods: 2.5--50 years

Applicable Convention: Mid-quarter (property placed in service third quarter)

Table 12. General and Alternative Depreciation Systems

Applicable Depreciation Method: Straight line

Applicable Recovery Periods: 2.5--50 years

Applicable Convention: Mid-quarter (property placed in service fourth quarter)

Table 13. Alternative Depreciation System

Applicable Depreciation Method: Straight line

Applicable Recovery Period: 40 years

Applicable Convention: Mid-month

Table 14. Alternative Minimum Tax (see

section 7 of this revenue procedure)

Applicable Depreciation Method: 150 percent declining balance
switching to straight line

Applicable Recovery Periods: 2.5--50 years

Applicable Convention: Half-year

Table 15. Alternative Minimum Tax (see

section 7 of this revenue procedure)

Applicable Depreciation Method: 150 percent declining balance
switching to straight line

Applicable Recovery Periods: 2.5--50 years

Applicable Convention: Mid-quarter (property placed in service
first quarter)

Table 16. Alternative Minimum Tax

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(see

section 7 of this revenue procedure)

Applicable Depreciation Method: 150 percent declining balance
switching to straight line

Applicable Recovery Periods: 2.5--50 years

Applicable Convention: Mid-quarter (property placed in service
second quarter)

Table 17. Alternative Minimum Tax (see

section 7 of this revenue procedure)

Applicable Depreciation Method: 150 percent declining balance
switching to straight line

Applicable Recovery Periods: 2.5--50 years

Applicable Convention: Mid-quarter (property placed in service third quarter)

Table 18. Alternative Minimum Tax (see

section 7 of this revenue procedure)

Applicable Depreciation Method: 150 percent declining balance switching to straight line

Applicable Recovery Periods: 2.5--50 years

Applicable Convention: Mid-quarter (property placed in service fourth quarter).

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Table 1. General Depreciation System

Applicable Depreciation Method: 200 or 150 Percent

Declining Balance Switching to Straight Line

Applicable Recovery Periods: 3, 5, 7, 10, 15, 20 years

Applicable Convention: Half-year

If the		and the Recovery Period is:				
Recovery	3-year	5-year	7-year	10-year	15-year	20-year
Year is:						
	the Depreciation Rate is:					
1	33.33	20.00	14.29	10.00	5.00	3.750
2	44.45	32.00	24.49	18.00	9.50	7.219
3	14.81	19.20	17.49	14.40	8.55	6.677
4	7.41	11.52	12.49	11.52	7.70	6.177
5		11.52	8.93	9.22	6.93	5.713
6		5.76	8.92	7.37	6.23	5.285
7			8.93	6.55	5.90	4.888
8			4.46	6.55	5.90	4.522
9				6.56	5.91	4.462
10				6.55	5.90	4.461
11				3.28	5.91	4.462
12					5.90	4.461
13					5.91	4.462
14					5.90	4.461
15					5.91	4.462
16					2.95	4.461
17						4.462
18						4.461
19						4.462
20						4.461

21

2.231

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Table 2. General Depreciation System

Applicable Depreciation Method: 200 or 150 Percent

Declining Balance Switching to Straight Line

Applicable Recovery Periods: 3, 5, 7, 10, 15, 20 years

Applicable Convention: Mid-quarter (property placed in service in first quarter)

If the		and the Recovery Period is:				
Recovery	3-year	5-year	7-year	10-year	15-year	20-year
Year is:		the Depreciation Rate is:				
1	58.33	35.00	25.00	17.50	8.75	6.563
2	27.78	26.00	21.43	16.50	9.13	7.000
3	12.35	15.60	15.31	13.20	8.21	6.482
4	1.54	11.01	10.93	10.56	7.39	5.996
5		11.01	8.75	8.45	6.65	5.546
6		1.38	8.74	6.76	5.99	5.130
7			8.75	6.55	5.90	4.746
8			1.09	6.55	5.91	4.459
9				6.56	5.90	4.459
10				6.55	5.91	4.459
11				0.82	5.90	4.459
12					5.91	4.460
13					5.90	4.459
14					5.91	4.460
15					5.90	4.459
16					0.74	4.460
17						4.459
18						4.460
19						4.459
20						4.460
21						0.557

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Table 3. General Depreciation System

Applicable Depreciation Method: 200 or 150 Percent

Declining Balance Switching to Straight Line

Applicable Recovery Periods: 3, 5, 7, 10, 15, 20 years

Applicable Convention: Mid-quarter (property placed in service in second quarter)

If the and the Recovery Period is

Recovery Year is:	3-year	5-year	7-year	10-year	15-year	20-year
	the Depreciation Rate is:					
1	41.67	25.00	17.85	12.50	6.25	4.688
2	38.89	30.00	23.47	17.50	9.38	7.148
3	14.14	18.00	16.76	14.00	8.44	6.612
4	5.30	11.37	11.97	11.20	7.59	6.116
5		11.37	8.87	8.96	6.83	5.658
6		4.26	8.87	7.17	6.15	5.233
7			8.87	6.55	5.91	4.841
8			3.33	6.55	5.90	4.478
9				6.56	5.91	4.463
10				6.55	5.90	4.463
11				2.46	5.91	4.463
12					5.90	4.463
13					5.91	4.463
14					5.90	4.463
15					5.91	4.462
16					2.21	4.463
17						4.462
18						4.463
19						4.462
20						4.463
21						1.673

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Table 4. General Depreciation System

Applicable Depreciation Method: 200 or 150 Percent

Declining Balance Switching to Straight Line

Applicable Recovery Periods: 3, 5, 7, 10, 15, 20 years

Applicable Convention: Mid-quarter (property placed in service in third quarter)

If the Recovery Year is:	3-year	5-year	7-year	10-year	15-year	20-year
	the Depreciation Rate is:					
1	25.00	15.00	10.71	7.50	3.75	2.813
2	50.00	34.00	25.51	18.50	9.63	7.289
3	16.67	20.40	18.22	14.80	8.66	6.742
4	8.33	12.24	13.02	11.84	7.80	6.237
5		11.30	9.30	9.47	7.02	5.769
6		7.06	8.85	7.58	6.31	5.336
7			8.86	6.55	5.90	4.936

8	5.53	6.55	5.90	4.566
9		6.56	5.91	4.460
10		6.55	5.90	4.460
11		4.10	5.91	4.460
12			5.90	4.460
13			5.91	4.461
14			5.90	4.460
15			5.91	4.461
16			3.69	4.460
17				4.461
18				4.460
19				4.461
20				4.460
21				2.788

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Table 5. General Depreciation System

Applicable Depreciation Method: 200 or 150 Percent

Declining Balance Switching to Straight Line

Applicable Recovery Periods: 3, 5, 7, 10, 15, 20 years

Applicable Convention: Mid-quarter (property placed in service in fourth quarter)

If the		and the Recovery Period is:				
Recovery	3-year	5-year	7-year	10-year	15-year	20-year
Year is:						
	the Depreciation Rate is:					
1	8.33	5.00	3.57	2.50	1.25	0.938
2	61.11	38.00	27.55	19.50	9.88	7.430
3	20.37	22.80	19.68	15.60	8.89	6.872
4	10.19	13.68	14.06	12.48	8.00	6.357
5		10.94	10.04	9.98	7.20	5.880
6		9.58	8.73	7.99	6.48	5.439
7			8.73	6.55	5.90	5.031
8			7.64	6.55	5.90	4.654
9				6.56	5.90	4.458
10				6.55	5.91	4.458
11				5.74	5.90	4.458
12					5.91	4.458
13					5.90	4.458
14					5.91	4.458
15					5.90	4.458
16					5.17	4.458
17						4.458

15	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637
	3.637											
16	3.637	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636
	3.636											
17	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637
	3.637											
18	3.637	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636
	3.636											
19	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637
	3.637											
20	3.637	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636
	3.636											
21	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637
	3.637											
22	3.637	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636
	3.636											
23	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637
	3.637											
24	3.637	3.637	3.673	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636
	3.636											
25	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637
	3.637											
26	3.637	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.633	3.636	3.636
	3.636											
27	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637
	3.637											
28	1.970	2.273	2.576	2.879	3.182	3.485	3.636	3.636	3.636	3.636	3.636	3.636
	3.636											
29	0.000	0.000	0.000	0.000	0.000	0.000	0.152	0.455	0.758	1.061	1.364	
	1.667											

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Table 7. General Depreciation System

Applicable Depreciation Method: Straight Line

Applicable Recovery Period: 31.5 years

Applicable Convention: Mid-month

If the

Recovery

And the Month in the First Recovery Year

Year is:

the Property is Placed in Service is:

1	2	3	4	5	6	7	8	9	10	11	12
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the Depreciation Rate is:

1	3.042	2.778	2.513	2.249	1.984	1.720	1.455	1.190	0.926	0.661	0.397
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